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U.S. House of Representatives

COMMITTEE ON THE BUDGET

Washington, DC 20515

March 20, 2000

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Dear Democratic Colleague:

Attached is "A Summary and Analysis of the House Republican Budget Resolution for 2001." This report analyzes the budget resolution passed by House Budget Committee Republicans on Wednesday, March 15. The full House is scheduled to debate the budget resolution this week, and I hope you will find this report useful as we prepare for the debate.

This year's Republican budget looks very similar to 1998, when no concurrent budget resolution was adopted, and to 1999, when a resolution was adopted but honored in the breach. To make room for a large tax cut, this year's resolution proposes cuts in spending much like those proposed last year. Yet last year, when all 13 appropriations bills first passed the House, they were \$30.1 billion above the budget resolution in the first year alone. When the final appropriations bill passed Congress on November 29, two months into the fiscal year, appropriated spending overran the budget resolution by \$34.8 billion.

This year, the Republicans propose to hold non-defense discretionary spending \$114 billion below inflation over the next five years. If their cuts were enacted, the harm to Americans who depend on domestic programs would be serious. To cite just a few, this resolution would require us to ---

- Cut 310,000 low-income women, infants, and children off WIC assistance in 2001 alone, and more in years thereafter.
- Cut 1,000 FBI agents and 800 Drug Enforcement Administration agents by 2005.
- Cut LIHEAP to 164,000 low-income families in 2001 just as oil prices are climbing.
- Provide Pell Grants to 316,000 fewer low-income students by 2005.
- Eliminate Head Start for more than 40,000 children and their families by 2005.

Even if these implausible cuts are made, their budget resolution will still spend some of the Social Security surplus. The resolution calls for \$150 billion in tax cuts over 5 years, but allows the Budget Committee Chairman to raise that total to \$200 billion, and then to take the total tax cut up by another \$50 billion if new revenue estimates warrant an increase. If the five-year tax cut is \$200 billion, the non-Social Security surplus will be virtually gone by 2003, and by 2004, the government will be in deficit again, spending the Social Security surplus. If the proposed domestic spending cuts aren't achieved, the resolution invades the Social Security surplus even sooner.

The surpluses on our horizon offer us an opportunity that Republicans squander but that we can seize. This week, we will offer on the House floor a budget alternative that extends the solvency of Social Security and Medicare, saves 100 percent of the Social Security surplus, closes a hole in Medicare coverage by providing a prescription drug benefit, commits more funds for education at all levels, gives Americans tax relief, and pays down our large public debt.

If you have any questions about the enclosed report, please feel free to call me or the House Budget Committee's Democratic staff.

Sincerely,

A handwritten signature in black ink, reading "John Spratt". The signature is fluid and cursive, with a large initial "J" and a stylized "S".

John M. Spratt, Jr.
Ranking Democratic Member



House Budget Committee

Democratic Caucus

U.S. Rep. John Spratt ■ Ranking Democratic Member

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March 20, 2000

A Summary and Analysis of the House Republican Budget Resolution for Fiscal Year 2001

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and therefore may not necessarily reflect the views of all the members of the caucus.

General Notes:

All years are fiscal years unless otherwise noted.

Funding levels for discretionary programs are stated in budget authority, unless otherwise noted. Funding levels for entitlements and other direct spending programs represent outlays.

In general, the 2001 discretionary funding levels in the House Republican budget resolution are compared with the Congressional Budget Office's (CBO's) March discretionary baseline. The CBO baseline figures are used for comparisons because they represent the 2000 funding levels adjusted for inflation. However, when appropriate, the discretionary funding levels in the House Republican budget plan are also compared with CBO's "freeze" level. CBO's freeze level makes no adjustment for inflation. Both the baseline and the freeze level are adjusted to exclude changes to mandatory programs enacted in 2000 appropriations acts.

All numbers are based on information provided by the Republicans either during the Committee mark-up on March 15, 2000, or in subsequent documentation on March 17. Because the budget resolution had not been filed as of publication time, numbers could still change and should not be considered final.

Numbers may not add due to rounding.

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Overview

This year's budget resolution is largely the same as the discredited budget resolutions the House passed in 1998 and 1999. As before, the budget plan does not provide a realistic blueprint to guide subsequent budget legislation. Rather, the Republican budget is designed as a vehicle to promote a large tax cut to the detriment of the long-term needs of Social Security and Medicare, and priority programs supported by the American people.

Once again, the House Republican budget plan does not extend the solvency of Social Security and Medicare for even one day. Worse, the resolution does not protect the Social Security surplus, as advocated by both Democrats and Republicans. Taking at face value Republicans' promises to provide a tax cut of at least \$200 billion and \$40 billion for undefined Medicare reform and an undefined prescription drug benefit, their budget will tap the Social Security surplus ***even if one accepts their unrealistic assumptions about spending cuts yet to be enacted.***

The Republican Budget Plan

All figures exclude the Social Security surplus; plus signs indicate costs; dollars in billions

	2000	2001	2002	2003	2004	2005	Five years	Ten years*
CBO Surplus w/o Social Security	27	15	29	36	42	48	171	893
Tax cuts		10	30	42	57	61	200	1,000
Non-defense cuts**	12	-16	-13	-21	-29	-36	-114	-363
Defense adds		3	2	2	3	2	12	23
Medicare "reform" & drugs		2	4	7	12	16	40	155
Medicaid/CHIP access & benefits		a	a	a	a	a	1	2
Farm adds	6	1	1	2	2	2	7	18
Extend expiring Customs fee					-1	-2	-3	-13
Interest costs	a	1	2	3	6	8	20	155
Republican "Surplus"	8	15	4	0	-7	-4	8	-84

Totals represent either outlays or revenues and may not add due to rounding.

a = less than \$½ billion.

** Extrapolations for the second five years made by the Democratic staff.*

*** Republican "non-defense" figures actually include the 2000 supplemental (both defense and non-defense) as well as \$9 billion from the repeal of previously enacted timing shifts.*

Compounding this problem, the resolution is premised on substantial cuts in domestic programs that will never occur. Having increased non-defense appropriations faster than inflation in every year since 1996, Republicans now would have us believe that they will stop on a dime and reverse course.

For 2001, the resolution assumes that Congress will cut non-defense appropriations \$7 billion below a hard freeze and \$20 billion below the level needed to keep pace with inflation. This is equal to a cut of more than 6 percent below the level needed to keep pace with inflation next year alone. This implausible assumption creates a recipe for another end-of-year budget “train wreck” in which Congress uses accounting gimmicks to hastily pass appropriations bills that have no relation to this overall budget plan.

More importantly, though, the Republican budget plan calls for increasingly unrealistic cuts in non-defense appropriations for 2002 through 2005 to make room for a large and growing tax cut. These deepening program cuts are even less plausible than the proposed 2001 cuts and, like those, will never occur. This means that any large tax cut enacted this year would increasingly be paid out of the Social Security surplus.

To cloak the fact that the growing size of the resolution’s tax cut jeopardizes domestic priorities, this year’s budget does not show the longer-term implications of Republican proposals. In the last two years, Republicans offered budgets that stretched over ten years, but they found that the implications of risky tax cuts garnered little support. So this year, the resolution covers only five years, which cloaks the resolution’s troubling long-run implications.

The budget surpluses projected for the next several years offer a unique opportunity. Democrats advocate using some portion of the non-Social Security surplus to strengthen and preserve Social Security and Medicare. Both programs will face significant fiscal challenges after 2010, but the Republican budget plan does nothing to meet the challenges.

Democrats also believe that a significant portion of the on-budget surplus, in addition to the entire Social Security surplus, should be dedicated to paying off the publicly held debt. Almost all economists, including Federal Reserve Chairman Alan Greenspan, agree that paying down the publicly held debt keeps interest rates down, boosts investment, fosters real wage growth, and strengthens the government’s finances as preparation for the fiscal challenges faced by Social Security and Medicare. The Republican budget resolution devotes little of the on-budget surplus to debt reduction and, starting in 2004, begins to invade the Social Security surplus.

Projected surpluses are large enough to address these long-term fiscal difficulties while still providing targeted tax cuts and adequate resources for high-priority investments. Democrats will propose an alternative budget when the full House debates the budget resolution. The Democratic alternative will make room for tax cuts that mitigate the marriage penalty, eliminate the impact

of the alternative minimum tax on the middle-class, assist small business and the self-employed, promote education, and foster investment in our communities. This tax relief will be accomplished while extending the solvency of Social Security and Medicare and accommodating key investments for education, public safety, military modernization, veterans, farmers, and the environment.

Democrats' alternative resolution will be a realistic guide to the government's overall budget priorities. It will balance competing needs instead of sacrificing domestic priorities like education and Social Security for a risky tax cut. It will preserve Social Security and Medicare for the long run, pay down the publicly held debt, provide tax relief to those who need it, and adequately fund essential programs. Instead of merely being a political broadside, the Democratic alternative will do what a budget resolution is supposed to do: set out an **achievable** plan to address **all** our major budget priorities.

Republicans Spend the Social Security Surplus

In committee mark-up, Republicans emphasized that their \$200 billion tax cut was a good "down payment" on the tax cut advocated by the presumptive Republican presidential nominee, Governor George W. Bush. They noted that a cut this size would approximate the estimated \$300 billion cost of the Bush tax cut over those same years.

Republicans may claim that a tax cut of this size does not jeopardize the Social Security surplus. However, this claim rests on double counting. The full \$200 billion Republican tax cut consists in part of a \$50 billion reserve fund specifically dedicated to tax cuts. In addition, there is a \$40 billion reserve fund specifically dedicated to their promised prescription drug benefit for Medicare. The Republicans estimate that their budget would achieve on-budget surpluses, i.e. not touch the Social Security surplus, in all five years of the resolution **but only if these two reserve funds are not used for their stated purposes.**

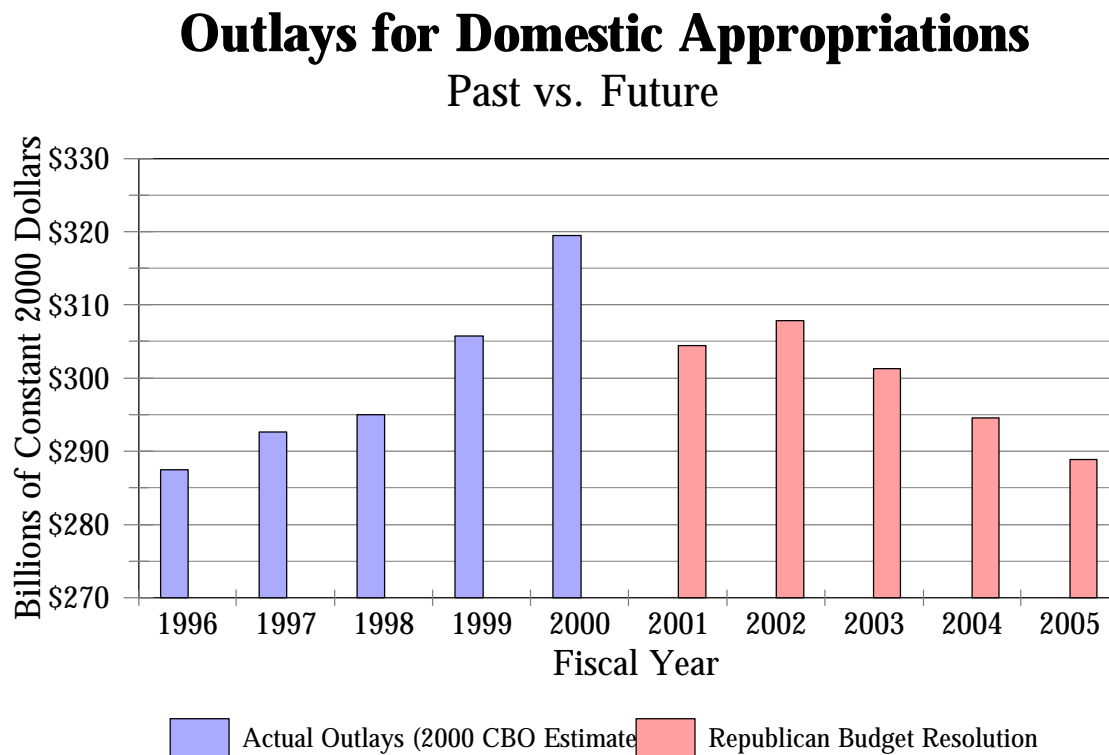
In committee mark-up, Republicans repeatedly insisted that the Republican budget plan provided a prescription drug benefit and at least \$200 billion in tax cuts. However, Republicans cannot have it both ways. If they use the \$90 billion in the two reserve funds to provide a prescription drug benefit and their full tax cut, then they spend part of the Social Security surplus. If they avoid using any of the Social Security surplus, then they cannot provide the prescription drug benefit and tax cut that they claim.

In truth, the on-budget deficits in the Republican budget plan actually are understated. The surpluses and deficits in the resolution assume enactment of large cuts in domestic appropriations that will never occur because Republicans themselves have repeatedly rejected them during their tenure in the majority. It simply is not credible to believe that Republicans would now substantially cut real purchasing power for these programs when they have substantially increased them during the last five years.

The budget resolution's unrealistic claims regarding appropriations thus ensure that the Republican tax cut would eat even more deeply into the Social Security surplus than the resolution already admits. The Republicans would not extend Social Security or Medicare solvency by even a single day. Over ten years, they would not devote any portion of the on-budget surplus to debt repayment to prepare the government's finances for the fiscal pressures associated with the Baby Boom generation's retirement. And, starting in 2004, they would even invade the Social Security surplus that Democrats and Republicans have publicly promised to save.

Republican Cuts to Domestic Appropriations Will Not Occur

The budget resolution calls for cutting outlays for non-defense discretionary outlays by \$114 billion over five years from the level needed to maintain current purchasing power. This plan for domestic appropriations is portrayed as funding "increases" because dollar amounts increase, though not enough to keep pace with inflation. This is misleading. When funding does not keep pace with rising prices, it provides fewer real resources and services. So, a funding increase that



does not maintain constant purchasing power for the FBI means fewer FBI agents.

Republican Congresses have increased outlays for domestic appropriations **faster** than inflation (see chart) every year since 1996. While excoriating domestic spending in the abstract, Republicans have voted not only to maintain real purchasing power but to increase it.

Republicans have shied away from the real program cuts that their rhetoric calls for because they have not been willing to reduce the services that these programs provide. If one looks at the programmatic implications of the cuts in purchasing power required by the budget resolution, it becomes obvious why the Republicans have not made these cuts in the past and will not make them now or in the future.

Domestic appropriations for 2001 in the Republican budget plan are \$7 billion below a “hard freeze” at the 2000 level. This constitutes a cut of \$20 billion, or more than 6 percent, below the level needed to maintain constant purchasing power. Even this understates the severity of the cuts to some programs because the resolution calls for selected funding increases for veterans’ health care, NIH research, and special education. Increasing funding for these programs requires that all other domestic appropriations bear additional offsetting cuts. The Republican plan does not spell out how to achieve these cuts, some of which are outlined below.

- Cutting 310,000 low-income women, infants, and children from WIC assistance in 2001 alone, and more each year;
- Cutting 1,000 FBI agents and 800 Drug Enforcement Administration agents by 2005;
- Cutting home energy assistance to 164,000 low-income families in 2001 during a period when oil prices are climbing;
- Providing Pell Grants to 316,000 fewer college students by 2005;
- Eliminating Head Start services for more than 40,000 children and their families by 2005;
- Cutting funds to clean up 40 Superfund sites by 2005;
- Cutting the Community Development Block Grant, Rural Community Advancement, Empowerment Zones, and Economic Development Assistance programs by one-third by 2005, even though Congress has repeatedly been unwilling to cut this critical assistance to rural and economically distressed communities; and
- Cutting energy research by almost one-third by 2005 even though the recent increase in oil and gasoline prices underscores the need for developing alternative energy sources.

How the Republican budget accomplishes these difficult and harmful cuts is a mystery in part because the resolution appears to jettison existing budget enforcement mechanisms. The resolution is silent about both the discretionary spending caps and the pay-as-you-go (PAYGO)

rules, even though its spending and tax totals would violate existing law on these matters. The President proposes new appropriations caps, set at levels that approximately keep purchasing power constant. However, the resolution ignores PAYGO, breaks the caps in current law, fails to propose new caps, and offers no guidance about what, if anything, other committees should do about these budget limits.

The fact that the resolution proposes no budgetary enforcement rules for the prescribed cuts such as new caps or extension of the PAYGO rules may well be an indication that Republicans themselves do not believe their cuts will occur.

Republican Budget Sacrifices All Other Priorities to Tax Cuts

The Republicans rejected numerous Democratic attempts to change their budget resolution in committee mark-up. Democrats offered amendments to reduce the tax cut to extend Social Security and Medicare solvency, to pay down more publicly held debt, and to boost the resolution's funding for education, health care, economically vulnerable people, law enforcement, and farmers. In each case, the Republican majority voted *en bloc* to reject any attempt to redirect the resources they devote to tax cuts.

Clearly, the Republicans' overriding priority is unchanged from previous years: to achieve large tax cuts irrespective of the consequences for Social Security and Medicare, debt reduction, or crucial government programs. Last year's Republican tax cut, which cost \$156 billion over five years before swelling to \$792 billion over ten years, failed because it was so large, it sacrificed other priorities, including debt reduction. This year's tax cut, which costs \$200 billion over five years and could cost \$1 trillion or more over ten years, takes the same approach.

The most convincing evidence that Republicans are willing to sacrifice other budget priorities for tax cuts is that they moved large tax bills through the House before even proposing a budget resolution. Including the cost of debt service, the tax cuts already passed by the House would cost \$456 billion over ten years, which would consume more than half the on-budget surplus if there is zero real growth in appropriations. These cuts constitute a huge claim on the projected surpluses, a claim that Republicans have staked without any consideration of a coherent budget plan that addresses the full range of budget priorities.

This is not the way the system is supposed to work. Republicans have diminished the credibility of the budget process and the budget resolution. For the third consecutive year, they have moved ahead with tax cuts, the bigger the better, with barely a thought about Social Security and Medicare solvency and debt reduction.

Democrats want to repair the budget process that has been diminished in recent years. The Democratic alternative budget resolution will be a blueprint mapping out a realistic plan to provide for budget priorities. It will devote some of the projected surplus to tax cuts targeted to working families, but it will also provide sufficient resources for other important priorities.

To Democrats, no priority is greater than using our hard-won surpluses to make Social Security and Medicare strong and solvent. Crucial to this outcome will be devoting a significant portion of the on-budget surplus to paying off the publicly held debt. In addition, Democrats want to make achievable and prudent investments in programs about which the country cares deeply within the context of overall fiscal discipline.

Ignoring Long-Term Needs of Social Security and Medicare

The House Republican budget plan fails to take any steps to extend the solvency of Social Security and Medicare. In fact, the resolution is silent on the most important fiscal challenge facing the nation. Republicans repeatedly have rejected President Clinton's proposals to dedicate the benefits of debt reduction to Social Security and Medicare solvency, even though the nonpartisan actuaries have certified that the President's plan extends solvency. But, in this Republican resolution, the Budget Committee offers the Congress no guidance for an alternative approach to the most serious budget issue of the day.

Still worse, the resolution fails to save all of the Social Security surplus for debt reduction. Both political parties have pledged to save the Social Security surplus and not use it to fund any other government activities. By itself, this does nothing to improve the finances of Social Security and Medicare. However, both parties agree that walling off the Social Security surplus is important because paying down public debt means the government will be better able to provide the resources these hallmark programs will need.

Because the Republican plan spends the Social Security surplus for other purposes, it reduces less public debt. If we instead saved all of the Social Security surplus, we would reduce the publicly held debt by \$827 billion over five years and \$2.3 trillion over ten years. Beyond this, Democrats advocate using a significant portion of the on-budget, or non-Social Security, surplus for additional debt reduction so that the \$3.5 trillion debt can be extinguished as early as 2013.

Virtually all economists, including Federal Reserve Chairman Alan Greenspan, argue that reducing the publicly held debt is a crucial, if indirect, way to prepare for the fiscal challenges facing Social Security and Medicare. First, substantially reducing publicly held debt improves the government's finances. Interest payments on the national debt currently constitute the third largest single spending item in the government's budget, costing \$224 billion this year. Eliminating or significantly reducing this mandatory expenditure would greatly improve the government's books.

In addition, economists contend that eliminating the government's borrowing needs from overall demand for credit bolsters the economy in various ways. When private-sector borrowers face less competition from the government, interest rates are lower and more capital is available for private investment. This added investment boosts productivity, real wages, and economic growth. A larger and more productive future economy can more easily bear the burden of a sizeable dependent population when the Baby Boom generation retires.

Republicans may claim that their budget does pay off publicly held debt at an accelerated pace because the resolution does not show on-budget deficits. Unfortunately, this claim results from double-counting. The resolution includes a so-called reserve fund of \$50 billion for part of the Republicans' tax cut and another \$40 billion reserve fund for Medicare reform and a prescription drug benefit. If Republicans fail to achieve their full tax cut and provide a prescription drug

benefit, then the money in these reserve funds would go to debt reduction. Such debt reduction automatically occurs whenever part of the surplus is not explicitly devoted to some other purpose, irrespective of the existence of a reserve fund.

However, Republicans repeatedly insisted in committee mark-up that they fully intend to provide a prescription drug benefit and to “make a significant down payment” on the \$483 billion five-year tax cut advocated by their presumptive presidential candidate, Governor George W. Bush. They cannot have it both ways. They cannot use \$40 billion for a prescription drug benefit and \$50 billion for additional tax cuts while also claiming that debt is reduced by the same \$90 billion. Republicans’ adamant insistence that they will fulfill their promises for a drug benefit and a large tax cut indicates that these items clearly are a higher priority for them than debt reduction.

Republicans Use Up the Entire Surplus — and More

All figures exclude the Social Security surplus; plus signs indicate costs; dollars in billions

	2000	2001	2002	2003	2004	2005	Five years	Ten years*
CBO Surplus w/o Social Security	27	15	29	36	42	48	171	893
Tax cuts		10	22	31	42	45	150	750
Non-defense cuts**	12	-16	-13	-21	-29	-36	-114	-363
All other costs including interest	6	4	5	6	6	7	28	107
Surplus claimed by Republicans	8	17	16	20	22	32	107	398
Reserve ^b for \$50 billion additional tax cuts		0	8	11	15	16	50	250
Reserve ^b for Medicare “reform” and prescription drugs		2	4	7	12	16	40	155
Interest cost of reserves		a	a	1	3	4	9	77
Surplus or Deficit (-) when reserves are used	8	15	4	a	-7	-4	8	-84

Totals represent either outlays or revenues and may not add due to rounding.

a = less than \$½ billion.

b These “reserves” are available whenever Ways & Means or Commerce wishes to use them; they are not contingent upon improvements in the economy. The Resolution specifies only the first-year and five-year cost of the reserves; figures in 2002-2005 are interpolated by Democratic staff. [In addition, the Budget Resolution contains further language allowing still greater tax cuts if the economy performs better than CBO expects.]

** Extrapolations for the second five years made by the Democratic staff.*

*** Republican “non-defense” figures actually include the 2000 supplemental (both defense and non-defense) as well as \$9 billion from the repeal of previously enacted timing shifts.*

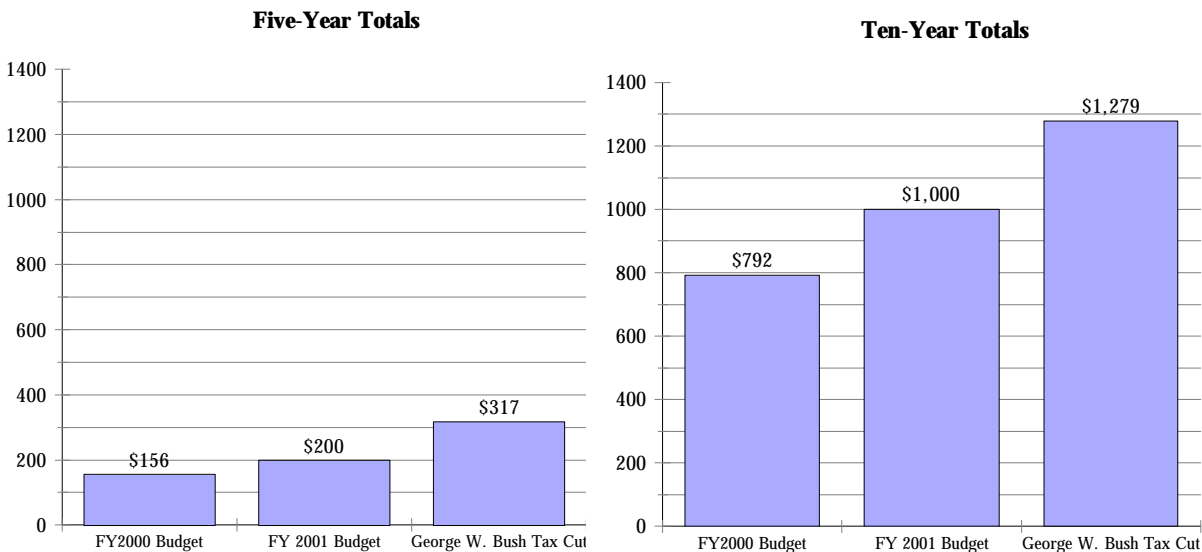
The Republican budget plan provides large tax cuts but does nothing to extend the solvency of the Social Security or Medicare trust funds. If we believe their assertions about providing a Medicare prescription drug benefit and their full tax cut, then their budget resolution actually shrinks the Social Security surplus in the future. This budget does not meet our nation's long-term responsibilities.

Revenues

The centerpiece of the Republican budget plan is a large tax cut that is likely to exceed the one Republicans proposed last year. That tax cut had a direct revenue loss of \$156 billion over five years and \$792 billion over ten years. Because enacting such a tax cut would have reduced the pace of debt reduction assumed in the baseline, last year's cut had a total cost of \$929 billion over ten years once the associated debt service costs were added.

This year's Republican tax cut costs \$200 billion over five years. Because the resolution does not show how the budget would unfold over ten years, one can only guess at the ten-year cost. However, tax cuts tend to grow over time because of phased-in provisions and the growth of the tax base as the economy expands. For instance, the ten-year cost of last year's tax cut was more than five times its five-year cost. Assuming that the pace of the phase-in for this year's bill is similar to last year's, this year's proposed tax cut could cost \$1 trillion over ten years. If one includes the added debt service, the total cost of the resolution's tax cut could easily exceed \$1 trillion.

Cost of Republican Tax Cuts



Because Republicans give overriding primacy to tax cuts over all other budget priorities, the House already has passed two tax cut bills this year before the Congress even considered or passed a budget resolution. The House has already passed the following three major tax bills: an attempt to address the marriage penalty; a package of cuts attached to the increase in the minimum wage; and a medical access bill based on tax preferences (which the House passed last year).

The table below shows the budgetary costs of these three bills. With the associated debt service costs, these bills consume more than half of the on-budget surplus under a scenario that assumes zero real growth in appropriations. In addition to the bills that already have passed the House, Republicans have announced their intention to move legislation for tax-preferred education savings accounts, expanded IRAs, reduced or suspended motor fuels excise taxes, and tax preferences for local economic development.

Republican Tax Cuts That Already Have Passed the House
(JCT scoring, in billions of dollars)

	2001	2001-2005	2001-2010
H.R. 6, Marriage penalty bill	4.1	50.7	182.3
H.R. 3832, Minimum wage tax provisions	2.4	45.3	122.3
H.R. 2990, Health access (excl. overlap w/H.R. 3832)	0.3	13.0	68.5
Total	6.8	109.0	373.1
Debt Service	0.2	12.1	82.8
Total w/ Debt Service	7.0	121.1	455.9

Although Republicans used a parliamentary maneuver to avoid voting on the actual package of cuts proposed by their presumptive presidential candidate, Governor George W. Bush, they adamantly insisted during mark-up that they considered this year's resolution "a significant down payment" on the Bush tax cut. In addition to many provisions already passed in other tax legislation this year, the Bush tax cut also features significant cuts in tax rates. Such lower rates substantially increase the revenue loss of the Bush tax cut. Governor Bush's tax proposals cost \$483 billion over five years (starting in 2002) and \$1.3 trillion over ten years.

A tax cut of this magnitude would force even greater use of the Social Security surplus, even more severe cuts in domestic appropriations, or both. This is illustrated in the table below.

The Republican Budget Plan with the Bush Tax Cut

All figures exclude the Social Security surplus; plus signs indicate costs; dollars in billions

	2000	2001	2002	2003	2004	2005	Five years	Ten years*
CBO Surplus w/o Social Security	27	15	29	36	42	48	171	893
Bush tax cuts		10	26	68	85	129	317	1,279
Non-defense cuts**	12	-16	-13	-21	-29	-36	-114	-363
Defense adds		3	2	2	3	2	12	23
Medicare "reform" & drugs		2	4	7	12	16	40	155
Medicaid/CHIP access & benefits		a	a	a	a	a	1	2
Farm adds	6	1	1	2	2	2	7	18
Extend expiring Customs fee					-1	-2	-3	-13
Interest costs	a	1	2	4	8	13	27	239
Republican Surplus or Deficit (-)	8	15	8	-26	-37	-76	-115	-446

Totals represent either outlays or revenues and may not add due to rounding.

a = less than \$½ billion.

** Extrapolations for the second five years made by the Democratic staff.*

*** Republican "non-defense" figures actually include the 2000 supplemental (both defense and non-defense) as well as \$9 billion from the repeal of previously enacted timing shifts.*

Appropriated Programs

Appropriated programs, also known as “discretionary” programs, are those controlled by the annual appropriations process. The House Republican budget plan provides large tax cuts premised on unprecedented non-defense appropriations cuts that Republican Congresses have been unable and unwilling to make. If Congress provides these tax cuts but cannot make the huge cuts in domestic programs, the Republicans will spend the Social Security surplus starting in 2004 and will reduce publicly held debt much less than the President’s plan or the Democratic alternative. Reducing debt is critical to ensuring that the government has the resources needed for funding Social Security and Medicare when the Baby Boom generation retires. In short, the Republican plan is an unrealistic and fiscally irresponsible budget blueprint.

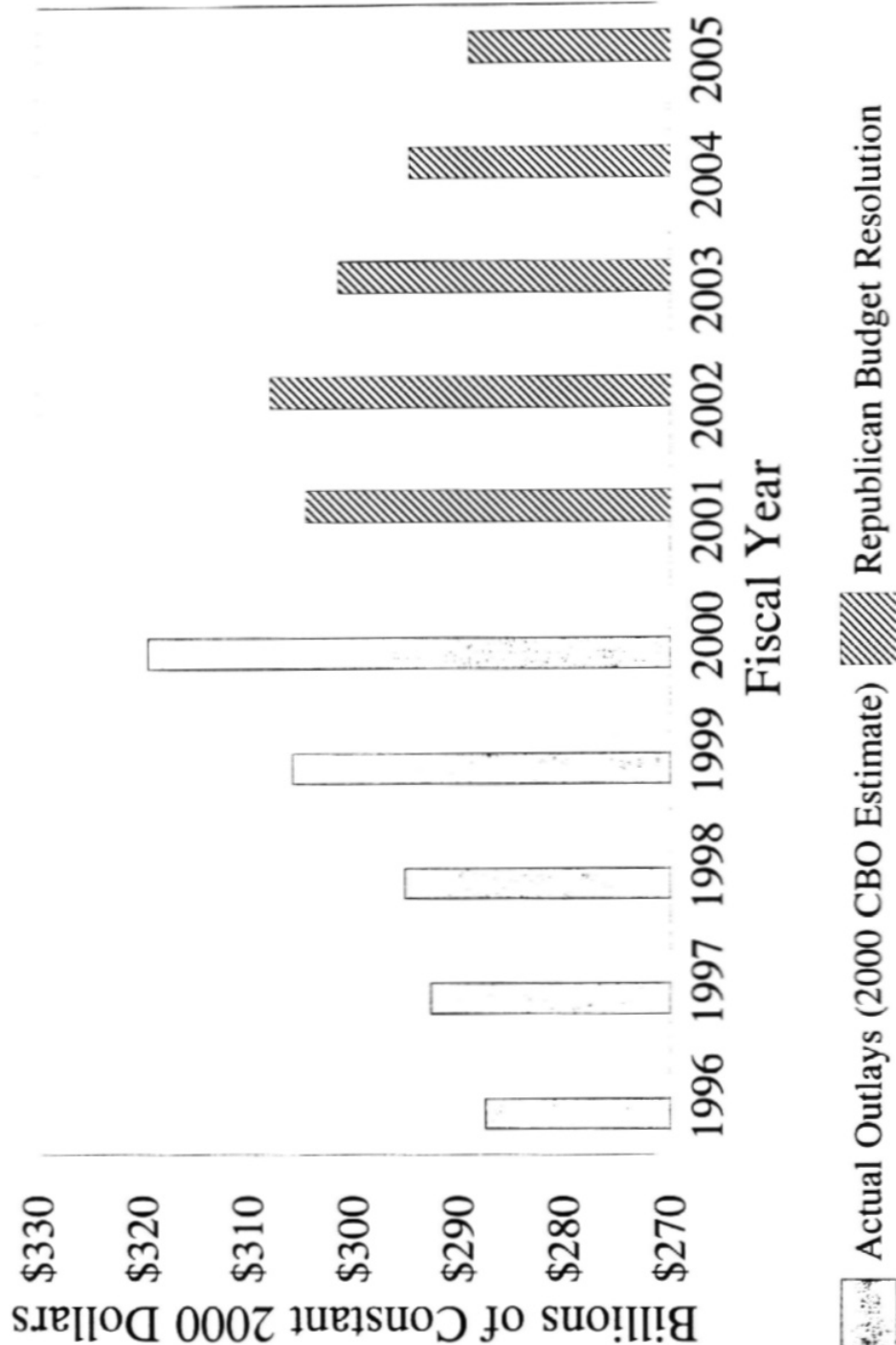
- **Overview** — The Republican plan provides for slightly more than zero real growth for defense but makes deep cuts in non-defense appropriations. The Republican plan is \$6.9 billion below a 2000 freeze level for 2001 for non-defense appropriations, and just slightly above a 2000 freeze level for 2002 - 2005. The table on the next page compares the numbers in the Republican plan to the level needed to maintain current services (constant purchasing power) for 2001 and 2005. As the table indicates, funding for non-defense programs for 2001 is cut 6.4 percent (\$19.7 billion) in purchasing power. By 2005, the Republican plan cuts funding for non-defense programs by 11.2 percent (\$38.1 billion) in purchasing power.
- **An “About Face” for Non-Defense Appropriations** — As the graph on page __ illustrates, non-defense appropriations have increased every year over the last five years (1996-2000), but the Republican plan assumes an “about face” that cuts these same programs deeply over the next five years. Of course, it assumes these unrealistic cuts in order to accommodate large tax cuts. If the tax cuts are enacted but these unrealistic cuts are not realized, on-budget deficits will resurface and Congress will tap into the Social Security surplus.
- **History Teaches Us That the Republican Plan is Unrealistic** — Here are some facts to bear in mind when evaluating the plausibility of the funding levels in the Republican plan for non-defense appropriations:
 - The annual real (inflation adjusted) rate of growth for non-defense appropriations since 1962 has been 2.8 percent.
 - Since 1987, there has been only one year, 1996, in which non-defense outlays did not record a real increase.

**Non-defense Discretionary Comparison:
House Republican Budget Resolution
Loss or Gain in Real Purchasing Power**

	House Republican Budget Resolution		Percent Above (+)/Below (-) Current Services	
	(In Billions of Dollars)		Percent	Percent
	2001	2005	2001	2005
150 International Affairs				
Budget authority	19.7	18.3	-13%	-25%
Outlays	21.3	18.2	-3%	-23%
250 General Science, Space				
Budget authority	19.6	20.3	0%	-4%
Outlays	19.2	19.8	-0%	-4%
270 Energy				
Budget authority	2.8	2.2	-9%	-30%
Outlays	2.8	2.3	-8%	-27%
300 Natural Resources and Environment				
Budget authority	24.3	24.7	-2%	-10%
Outlays	24.1	24.5	-1%	-9%
350 Agriculture				
Budget authority	4.5	4.5	-2%	-11%
Outlays	4.4	4.4	-3%	-12%
370 Commerce and Housing Credit				
Budget authority	2.7	3.0	-67%	-67%
Outlays	3.2	3.0	-60%	-66%
400 Transportation				
Budget authority	15.7	16.8	5%	1%
Outlays	48.2	53.3	1%	-1%
450 Community and Regional Development				
Budget authority	9.1	8.5	-22%	-32%
Outlays	11.7	8.5	-1%	-30%
500 Education and Training				
Budget authority	56.8	60.7	3%	2%
Outlays	52.9	57.7	-0%	-2%
550 Health				
Budget authority	35.0	37.1	1%	-1%
Outlays	34.0	35.8	0%	-1%
570 Medicare				
Budget authority	3.1	3.1	-2%	-15%
Outlays	3.1	3.1	-2%	-14%
600 Income Security				
Budget authority	35.2	38.8	-14%	-19%
Outlays	41.9	42.5	-1%	-11%
650 Social Security				
Budget authority	3.4	3.6	3%	-3%
Outlays	3.3	3.6	1%	-2%
700 Veterans				
Budget authority	22.2	23.8	2%	-3%
Outlays	22.0	23.6	2%	-3%
750 Administration of Justice				
Budget authority	26.9	27.9	-2%	-9%
Outlays	27.1	27.7	-2%	-9%
800 General Government				
Budget authority	12.4	12.4	-5%	-16%
Outlays	13.0	12.4	-3%	-14%

Outlays for Domestic Appropriations

Past vs. Future



- As the graph illustrates, from 1996 through 2000, the Republican Congress has increased non-defense spending by an average annual rate of 2.5 percent in real terms. (Note: This is the same annual average rate of increase as the Democratic-controlled Congress in the 1990-1994 period.)
- The House-passed versions of the 2000 appropriations bills exceeded the 2000 Republican Budget Resolution by \$30.7 billion even before these bills reached the President's desk. This refutes the claim of some Members that the appropriations bills have only increased under a Republican Congress because of a Democratic President.

History teaches us that Republican Congresses have been unwilling to hold non-defense spending to zero real growth. In fact, as the graph indicates, the rate of growth of non-defense appropriations is accelerating, not declining, under the Republican Congress.

Examples of What These Cuts Will Mean — As in 1998 and 1999, the Congress is unlikely to make the cuts required by the Republican plan. However, it is worth taking the Republican plan at face value and considering the impact of the cuts. The Republican plan will wreak havoc on many programs, including the following examples:

- Cutting 310,000 low-income women, infants, and children from WIC assistance in 2001 alone, and more each year;
- Cutting 1,000 FBI agents and 800 Drug Enforcement Administration agents by 2005;
- Cutting home energy assistance to 164,000 low-income families in 2001 just as oil prices are climbing;
- Providing Pell Grants to 316,000 fewer low-income students by 2005;
- Eliminating Head Start services for more than 40,000 children and their families by 2005;
- Cutting funds to clean up 40 Superfund sites by 2005;
- Cutting the Community Development Block Grant, Rural Community Advancement, Empowerment Zones, and Economic Development Assistance programs by one-third by 2005, even though Congress has repeatedly been unwilling to cut this critical assistance to rural and economically distressed communities; and
- Cutting energy research by almost one-third by 2005 even though the recent increase in oil and gasoline prices underscores the need for developing alternative energy sources.

Masking the Cuts — The Republican plan attempts to mask its large cuts to non-defense appropriations in several ways. First, it targets the International Affairs, Community and Regional Development, and General Government functions for disproportionately large cuts, but does not specify the particular programs to be cut. The “savings” from these functions keeps many other functions at or above a freeze level in an attempt to appear more reasonable than past Republican budgets. However, it is a virtual certainty that the targeted functions

cannot be cut by the amounts in the Republican plan. See *Function 150*, *Function 450*, and *Function 800* for further discussion.

Second, the Republican plan contains unspecified cuts totaling \$11.8 billion over the 2001-2005 period in a function 920, an obscure “catch-all” function that the Republicans have used in the past to assume cuts without specifying even the functions to be cut. See *Function 920* for further discussion.

Third, some Members may claim that since the Republican plan keeps many non-defense programs at a 2000 freeze level, it does not cut non-defense appropriations much. This is a specious argument. A freeze level by definition cuts the purchasing power of programs, and these cuts compound over time. The truth is that the Republican plan cuts the purchasing power (as measured by outlays) of every non-defense function by 2005, including popular functions like Education and Social Services, Transportation, and Health. It cuts most of the non-defense appropriation functions by 10 percent or more in 2005.

Fourth, Republicans are trying to take credit for selected spending initiatives, such as increases for the National Science Foundation and the National Institutes of Health (NIH). The Republican plan fails, however, to specify the cuts needed to other programs within those functions to provide the selected increases. For example, to fund increases for NIH research, cuts must be made for the Ryan White AIDS program, the Centers for Disease Control, Indian Health Services, the Ricky Ray Hemophilia fund, the Food and Drug Administration, and other programs and agencies critical to public health. The Republican plan does not spell out its assumptions on what programs will be cut for an obvious reason: to dodge criticism.

Lack of Fiscal Discipline — The 1990 bipartisan Budget Enforcement Act imposed statutory dollar limits or “caps” on budget authority and outlays for appropriations for the years 1991 to 1995. It created a “sequestration” mechanism to make across-the-board cuts automatically if, at the end of each session of Congress, OMB determined that Congress had breached the caps. The discretionary caps were extended through 1998 when President Clinton’s first budget was enacted in 1993, and the Balanced Budget Act of 1997 (BBA) revised and extended these caps through 2002. The discretionary caps, in conjunction with the “pay as you go”

Discretionary Spending As a Percentage of Gross Domestic Product (GDP)

According to the non-partisan budget watchdog group, the Concord Coalition, “as a share of GDP, non-defense discretionary spending is now at its lowest level since LBJ announced his ‘Great Society’ program in 1965.” Under the Republican plan, non-defense discretionary spending as a percentage of GDP drops from 3.3 percent in 2000 to 2.8 percent in 2005. Historical records of government spending do not go back far enough to indicate the last time non-defense appropriations comprised such a low percentage of GDP.

(PAYGO) rules for mandatory programs, were the primary tools of fiscal discipline that reversed the federal budget from chronic deficits to the current forecast of ongoing surpluses.

The President's 2001 budget proposes a new set of caps through 2010 that approximates what it is necessary to keep appropriations at a zero real growth level (the level needed to preserve purchasing power by staying even with inflation). This year, both Republicans and Democrats agree that the existing caps are unrealistic. While there is not a bipartisan agreement on an appropriate level of appropriations, it is noteworthy that the Republican plan breaks the existing caps yet fails to impose and extend new caps. This omission suggests that the Republicans themselves may not consider their appropriations cuts to be realistic or credible.

Summary of Republican Appropriations: Misleading, Inadequate, and Unsound — The Republican plan uses most of the on-budget surplus to offset its tax cut, leaving non-defense appropriations at unrealistic levels. The Budget Committee tries to obscure the political implausibility of its budget resolution by pretending that inflation does not exist, providing little detail about the specific programs to be cut, and by concentrating the cuts in several functions that are necessary but not glamorous.

Earlier this year, Speaker Hastert cautioned that "it's not realistic to say that we are going to freeze budgets for the next ten years." The Republican plan essentially freezes non-defense appropriations for the next five years and then stops. Unlike President Clinton's budget and the Democratic alternative, the Republican plan does not reveal to the American people what it will do in the second five years. The reason is simple: the Republicans have to freeze non-defense appropriations for a full ten years in order to accommodate their tax cuts which grow much more quickly in the second five years. In fact, it is very likely that defense appropriations and mandatory programs would have to be cut as well.

Last year's Republican budget plan was discredited when the Appropriations Committee could not cut non-defense programs nearly as much as the plan assumed. This year, the Republican plan follows the same course, but hopes to avoid last year's problems by not telling the whole story. The Republican plan cloaks the truth about how many necessary government services Congress would have to cut and about the growing expense of the tax cut in 2006-2010 in order to appear more reasonable than last year. Just as last year, however, the Republican plan is unrealistic and fiscally unsound.

The Budget by Function

The following three tables show the House Republican budget plan broken. The first table shows the total budget (mandatory and discretionary) for each budget function. The second table shows the budget for appropriated (discretionary) funding, which is funding controlled by the annual appropriations process. The final table shows the budget for mandatory spending, which is spending provided through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. Detailed descriptions of each function (except *Function 900: Net Interest*, which is directly tied to the funding levels in the other budget functions and revenues) follow the tables.

HOUSE REPUBLICAN FY 2001 BUDGET RESOLUTION
TOTAL BUDGET
(In billions of dollars)

	2000	2001	2002	2003	2004	2005	5 Yr. Total
Budget Authority	1,801.8	1,858.7	1,901.3	1,961.2	2,027.0	2,102.3	9,850.4
Outlays	1,784.0	1,825.4	1,880.4	1,939.1	2,004.1	2,079.3	9,728.2
Revenues	1,945.1	2,006.3	2,066.4	2,134.6	2,205.5	2,300.3	10,713.2
Surplus	161.1	180.9	186.0	195.5	201.4	221.1	985.0
050 National Defense							
Budget authority	288.9	306.3	309.3	315.6	323.4	331.7	1,586.3
Outlays	282.5	297.6	302.0	309.4	317.6	328.1	1,554.7
150 International Affairs							
Budget authority	20.1	19.5	19.3	18.8	18.3	18.5	94.4
Outlays	15.5	17.3	17.2	16.1	15.2	14.8	80.6
250 General Science, Space							
Budget authority	19.3	19.8	19.9	20.0	20.1	20.3	100.1
Outlays	18.5	19.3	19.6	19.6	19.6	19.8	97.9
270 Energy							
Budget authority	1.1	1.2	0.7	0.5	0.4	0.3	3.1
Outlays	-0.6	-0.1	-0.4	-0.7	-0.9	-0.9	-3.0
300 Natural Resources and Environment							
Budget authority	24.3	25.0	25.1	25.2	25.3	25.4	126.0
Outlays	24.2	24.8	25.1	25.2	25.2	25.1	125.4
350 Agriculture							
Budget authority	35.7	19.1	18.5	17.6	17.0	15.8	88.0
Outlays	34.3	16.9	16.7	15.9	15.5	14.2	79.2
370 Commerce and Housing Credit							
Budget authority	8.5	6.9	9.0	10.3	13.6	13.5	53.3
Outlays	4.1	2.9	5.3	5.5	8.7	9.6	32.0
400 Transportation							
Budget authority	54.3	59.2	57.4	58.8	58.8	58.8	293.0
Outlays	46.6	50.3	52.5	54.8	55.1	55.1	267.8
450 Community and Regional Development							
Budget authority	11.2	9.1	8.5	8.4	8.4	8.5	42.9
Outlays	10.8	11.1	9.7	8.8	8.3	7.8	45.7
500 Education and Training							
Budget authority	57.7	72.6	74.0	75.0	76.1	77.8	375.5
Outlays	61.4	69.2	72.1	73.2	73.5	74.2	362.2
550 Health							
Budget authority	159.3	169.7	179.6	191.5	205.6	221.7	968.1
Outlays	152.3	167.1	177.9	190.6	205.0	220.3	960.9
570 Medicare							
Budget authority	199.6	217.7	225.1	246.8	267.2	294.2	1,251.0
Outlays	199.5	218.0	225.1	246.6	267.4	294.2	1,251.3
600 Income Security							
Budget authority	238.4	252.2	263.0	272.1	281.7	294.0	1,363.0
Outlays	248.0	254.9	264.3	273.4	283.2	295.9	1,371.7
650 Social Security							
Budget authority	405.0	422.8	443.0	463.8	486.0	510.1	2,325.7
Outlays	405.0	422.7	443.0	463.7	485.9	510.1	2,325.4
700 Veterans							
Budget authority	46.0	47.8	49.0	50.8	52.0	55.3	254.9
Outlays	45.2	47.4	48.9	50.6	51.7	54.9	253.5
750 Administration of Justice							
Budget authority	27.3	28.0	27.8	27.9	28.2	28.4	140.3
Outlays	28.0	28.0	28.0	27.9	27.9	28.1	139.9
800 General Government							
Budget authority	13.9	13.6	13.6	13.5	13.5	13.6	67.8
Outlays	14.7	14.2	13.9	13.7	13.7	13.5	69.0
900 Net Interest							
Budget authority	224.6	219.1	210.3	196.3	182.0	166.9	974.5
Outlays	224.6	219.1	210.3	196.3	182.0	166.9	974.5
920 Allowances							
Budget authority	8.5	-4.2	-1.5	-1.7	-2.3	-2.5	-12.2
Outlays	11.5	-8.6	-0.5	-1.4	-2.2	-2.5	-15.2
950 Undistributed Offsetting Receipts							
Budget authority	-41.8	-46.7	-50.2	-50.2	-48.2	-50.1	-245.4
Outlays	-41.8	-46.7	-50.2	-50.2	-48.2	-50.1	-245.4

Note: Rounding errors exist because House Republican budget resolution only available to tenths of billions.

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HOUSE REPUBLICAN FISCAL YEAR 2001 BUDGET RESOLUTION
DISCRETIONARY TOTALS
(In billions of dollars)

	2000	2001	2002	2003	2004	2005	5 Yr. Total
Total Discretionary							
Budget Authority	578.2	596.5	607.4	615.9	624.9	635.6	3,080.3
Outlays	615.2	622.1	639.3	648.3	655.6	666.7	3,232.0
Non-defense discretionary							
Budget Authority	288.3	289.2	297.2	299.4	300.7	303.1	1,489.6
Outlays	331.7	323.5	336.4	338.0	337.2	337.8	1,672.9
 050 National Defense							
Budget authority	289.9	307.3	310.2	316.5	324.2	332.5	1,590.7
Outlays	283.5	298.6	302.9	310.3	318.4	328.9	1,559.1
150 International Affairs							
Budget authority	22.3	19.7	19.3	18.8	18.3	18.3	94.4
Outlays	20.1	21.3	21.0	19.8	18.7	18.2	99.0
250 General Science, Space							
Budget authority	19.2	19.7	19.9	20.0	20.1	20.3	100.0
Outlays	18.4	19.2	19.5	19.5	19.6	19.8	97.7
270 Energy							
Budget authority	2.6	2.8	2.6	2.4	2.2	2.2	12.2
Outlays	3.0	2.8	2.7	2.5	2.3	2.3	12.6
300 Natural Resources and Environment							
Budget authority	24.0	24.3	24.4	24.5	24.6	24.7	122.5
Outlays	23.7	24.1	24.4	24.5	24.5	24.5	122.0
350 Agriculture							
Budget authority	4.5	4.5	4.5	4.5	4.5	4.5	22.5
Outlays	4.5	4.4	4.4	4.4	4.4	4.4	22.0
370 Commerce and Housing Credit							
Budget authority	6.9	2.7	3.1	3.1	3.1	3.0	15.0
Outlays	7.3	3.2	3.0	3.0	3.1	3.0	15.3
400 Transportation							
Budget authority	14.4	15.7	16.3	16.8	16.8	16.8	82.4
Outlays	44.3	48.2	50.8	52.9	53.2	53.3	258.4
450 Community and Regional Development							
Budget authority	11.4	9.1	8.5	8.5	8.5	8.5	43.1
Outlays	11.5	11.7	10.3	9.5	9.0	8.5	49.0
500 Education and Training							
Budget authority	44.5	56.8	57.7	58.7	59.7	60.7	293.6
Outlays	49.1	52.9	55.8	57.2	57.5	57.7	281.1
550 Health							
Budget authority	33.7	34.9	35.5	36.0	36.5	37.0	179.9
Outlays	28.9	33.9	33.8	34.7	35.2	35.7	173.3
570 Medicare							
Budget authority	3.1	3.1	3.1	3.1	3.1	3.1	15.5
Outlays	3.1	3.1	3.1	3.1	3.1	3.1	15.5
600 Income Security							
Budget authority	29.9	35.2	38.3	38.5	38.6	38.8	189.4
Outlays	42.4	41.9	42.2	42.2	42.3	42.5	211.1
650 Social Security							
Budget authority	3.2	3.4	3.4	3.5	3.6	3.6	17.5
Outlays	3.2	3.3	3.4	3.4	3.5	3.6	17.2
700 Veterans							
Budget authority	20.9	22.2	22.6	23.0	23.4	23.8	115.0
Outlays	20.4	22.0	22.6	22.9	23.2	23.6	114.3
750 Administration of Justice							
Budget authority	26.6	26.9	27.1	27.3	27.6	27.9	136.8
Outlays	27.2	27.1	27.2	27.2	27.4	27.7	136.6
800 General Government							
Budget authority	12.6	12.4	12.4	12.4	12.4	12.4	62.0
Outlays	13.1	13.0	12.7	12.6	12.4	12.4	63.1
920 Allowances							
Budget authority	8.5	-4.2	-1.5	-1.7	-2.3	-2.5	-12.2
Outlays	11.5	-8.6	-0.5	-1.4	-2.2	-2.5	-15.2
950 Undistributed Offsetting Receipts							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Rounding errors exist because House Republican budget resolution only available to tenths of billions.

HBC Democratic Staff

HOUSE REPUBLICAN BUDGET RESOLUTION
MANDATORY, NET INTEREST, AND OFFSETTING RECEIPTS ONLY
(In billions of dollars)

	2000	2001	2002	2003	2004	2005	5-yr. Total
Budget Authority	1,223.6	1,262.2	1,293.8	1,345.3	1,402.1	1,466.7	6,770.1
Outlays	1,168.8	1,203.2	1,241.0	1,290.8	1,348.5	1,412.6	6,496.0
050 National Defense							
Budget authority	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	-4.4
Outlays	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	-4.4
150 International Affairs							
Budget authority	-2.2	-0.2	0.0	0.0	0.0	0.2	0.0
Outlays	-4.6	-4.0	-3.8	-3.7	-3.5	-3.4	-18.4
250 General Science, Space							
Budget authority	0.1	0.1	0.0	0.0	0.0	0.0	0.1
Outlays	0.1	0.1	0.1	0.1	0.0	0.0	0.2
270 Energy							
Budget authority	-1.5	-1.6	-1.9	-1.9	-1.8	-1.9	-9.1
Outlays	-3.6	-2.9	-3.1	-3.2	-3.2	-3.2	-15.6
300 Natural Resources and Environment							
Budget authority	0.3	0.7	0.7	0.7	0.7	0.7	3.5
Outlays	0.5	0.7	0.7	0.7	0.7	0.6	3.4
350 Agriculture							
Budget authority	31.2	14.6	14.0	13.1	12.5	11.3	65.5
Outlays	29.8	12.5	12.3	11.5	11.1	9.8	57.2
370 Commerce and Housing Credit							
Budget authority	1.6	4.2	5.9	7.2	10.5	10.5	38.3
Outlays	-3.2	-0.3	2.3	2.5	5.6	6.6	16.7
400 Transportation							
Budget authority	39.9	43.5	41.1	42.0	42.0	42.0	210.6
Outlays	2.3	2.1	1.7	1.9	1.9	1.8	9.4
450 Community and Regional Development							
Budget authority	-0.2	0.0	0.0	-0.1	-0.1	0.0	-0.2
Outlays	-0.7	-0.6	-0.6	-0.7	-0.7	-0.7	-3.3
500 Education and Training							
Budget authority	13.2	15.8	16.3	16.3	16.4	17.1	81.9
Outlays	12.3	16.3	16.3	16.0	16.0	16.5	81.1
550 Health							
Budget authority	125.6	134.8	144.1	155.5	169.1	184.7	788.2
Outlays	123.4	133.2	144.1	155.9	169.8	184.6	787.6
570 Medicare							
Budget authority	196.5	214.6	222.0	243.7	264.1	291.1	1,235.5
Outlays	196.4	214.9	222.0	243.5	264.3	291.1	1,235.8
600 Income Security							
Budget authority	208.5	217.0	224.7	233.6	243.1	255.2	1,173.6
Outlays	205.6	213.0	222.1	231.2	240.9	253.4	1,160.6
650 Social Security							
Budget authority	401.8	419.4	439.6	460.3	482.4	506.6	2,308.3
Outlays	401.8	419.4	439.6	460.3	482.4	506.6	2,308.3
700 Veterans							
Budget authority	25.1	25.6	26.4	27.8	28.6	31.5	139.9
Outlays	24.8	25.4	26.3	27.7	28.5	31.3	139.2
750 Administration of Justice							
Budget authority	0.7	1.1	0.7	0.6	0.6	0.5	3.5
Outlays	0.8	0.9	0.8	0.7	0.5	0.4	3.3
800 General Government							
Budget authority	1.3	1.2	1.2	1.1	1.1	1.2	5.8
Outlays	1.6	1.2	1.2	1.1	1.3	1.1	5.9
900 Net Interest							
Budget authority	224.5	219.0	210.4	196.3	182.0	167.0	974.6
Outlays	224.5	219.0	210.4	196.3	182.0	167.0	974.6
920 Allowances							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
950 Undistributed Offsetting Receipts							
Budget authority	-41.8	-46.7	-50.3	-50.2	-48.2	-50.1	-245.5
Outlays	-41.8	-46.7	-50.3	-50.2	-48.2	-50.1	-245.5

Note: Rounding errors exist because House Republican budget resolution only available to tenths of billions.

Function 050: National Defense

The National Defense function includes funding for the Department of Defense (DOD), the nuclear weapons-related activities of the Department of Energy, and national defense activities in various other agencies, such as the Coast Guard and the Federal Bureau of Investigation. The DOD represents about 95 percent of this function.

Overview — For 2001, the House Republican budget plan provides \$307.3 billion for national defense appropriations. This level of funding is an \$8.9 billion (1.6 percent) increase in purchasing power, and is \$17.4 billion (6.0 percent) more than the 2000 freeze level. As is discussed in greater detail in *Appropriated Programs*, both the Republican plan and the President's budget represent slight real growth for national defense for the next five years. However, since the total level for overall appropriations is well below the level necessary to maintain zero real growth, the Republican plan sharply cuts non-defense appropriations.

A De Facto Bipartisan Agreement on Defense — Despite the rhetoric from some Members, the Republican plan is almost the same funding level as the President's. For 2001, the Republican plan is only \$1.0 billion more than the President's budget, an increase of three-tenths of one percent. The Republican plan is just \$2.1 billion (one-tenth of one percent) more than the President's budget over the 2001-2005 period. The striking similarity of the President's budget to the Republican plan is noteworthy in light of the widely reported requests of the Service Chiefs for at least \$15 billion more in additional funding for DOD for 2001 alone. The emphatic rejection of the Service Chiefs' requests in the Republican plan and the convergence to the President's budget indicates a *de facto* bipartisan agreement on overall defense funding levels.

Function 150: International Affairs

The International Affairs function includes a wide range of programs and activities, including operation of U.S. embassies and consulates throughout the world, military assistance to allies, aid to developing nations, economic assistance to fledgling democracies, promotion of U.S. exports abroad, U.S. payments to international organizations, and peacekeeping efforts. This function has represented about one percent of all federal outlays since 1992.

Overview— The House Republican budget plan provides \$19.7 billion for international affairs appropriations for 2001. This level of funding is a \$3.0 billion (13.2 percent) cut in purchasing power. By 2005, the level in the Republican plan represents a 25.1 percent cut in purchasing power. The Republican plan assumes no policy changes that will affect mandatory spending or offsetting receipts within the international affairs function.

Implausible Funding Levels— As discussed in *Appropriated Programs*, the Republican plan disproportionately cuts funding for international affairs appropriations, without specifying programs to be cut, in an attempt to mask its unrealistic cuts to overall non-defense appropriations. Thus, the international affairs function is emblematic of the unwise and politically implausible assumptions upon which the Republican plan rests. For example, the cuts in the Republican plan would:

- Cut resources needed to fund anti-narcotics efforts throughout the world, including anti-heroin efforts in Asia and anti-cocaine efforts in Latin America;
- Severely curtail efforts to improve U.S. embassy security, a widely-recognized priority since the devastating terrorist attacks against U.S. embassies in Kenya and Tanzania in August, 1998;
- Jeopardize current U.S. assistance to the Middle East, which is vital to maintaining stability in a region critical to U.S. economic and national security interests, as well as raise doubts about the credibility of the U.S. to provide the resources necessary to facilitate future peace agreements between Israel, the Palestinian authority, and Syria;
- Sharply reduce modest but critical assistance to countries struggling to become free-market democracies in Eastern Europe and the former Soviet Union;
- Further reduce U.S. humanitarian and economic development assistance, despite the fact that the U.S. already ranks 21st in the world in terms of foreign aid as a percent of gross

national product (GNP);¹ and

- Shut down embassies and consulates throughout the world and cut staffing at others, hurting the interests of American businesses and tourists.

“One-Time Costs” — Some Republicans may claim that this function can be cut below 2000 levels because the 2000 level included “one-time” costs for the Wye River Middle East Peace Agreement and repayment of U.S. back dues (arrears) to the United Nations. This reasoning is flawed for three reasons. First, even excluding the Wye River and U.N. arrears funding, the Republican plan cuts the purchasing power for U.S. international programs by 3.8 percent for 2001 and by 17 percent for 2005. Second, while it is true that those specific one-time costs are not expected to occur again, other currently unforeseen one-time costs could occur. For instance, it is possible that one or more agreements promoting peace in the Middle East could be reached within the next few years. Third, 2000 funding levels for other priorities that enjoy strong bipartisan support, such as more aggressive efforts to curb narcotics trafficking and increasing security at U.S. embassies, are considered inadequate by many Members on both sides of the aisle. Depending on the levels assumed for these programs, this would more than offset the cuts the Republican plan makes and tries to justify by assuming there will be no unforeseen one-time costs for the next five years.

In short, any argument over the merits of including Wye River and U.N. arrears in a comparison of funding cannot change the bottom line: the Republican plan slashes funding for U.S. international and diplomatic funding.

Undercutting U.S. Foreign Policy — The Chairman of the House International Relations Committee, Rep. Ben Gilman, wrote Chairman Kasich prior to mark-up of the Republican plan requesting the same level of funding for 2001 as the President requested (which was slightly more than what is needed to maintain constant purchasing power). Chairman Gilman thought this level would be appropriate because:

“Most of the programs under our jurisdiction are uniquely the responsibility of the federal government and are strongly related to protecting the national security.”

¹Data is from the Organization for Economic Cooperation and Development’s 1999 Development Cooperation Report, February, 2000. The OECD measurement is based on its definition of “official development assistance,” consisting of grants or concessional loans to developing countries to promote economic development. Military assistance is not considered official development assistance. U.S. economic assistance to Israel is excluded because Israel is not considered a developing country by the OECD. The U.S. level is one-tenth of one percent of GNP, which is a quarter of the average percentage among developed countries. Countries that provide more foreign aid as a percent of GNP than the U.S. include Japan, Australia, France, Ireland, Italy, Luxembourg, New Zealand, Portugal, and Spain. In total amount of foreign aid, the U.S. ranks second, \$1.9 billion behind Japan.

The Republican plan instead cuts the President's request by 13 percent, raising serious questions about the ability to promote U.S. national security through diplomacy. The Republican plan is plainly unrealistic in the funding it provides for international programs.

Function 250: General Science, Space, and Technology

This function includes the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and general science programs within the Department of Energy (DOE).

For 2001, the House Republican budget plan provides \$19.7 billion in appropriated funding for science programs, which includes \$100 million that the Democrats added during the Committee's mark-up. This level of funding is \$125 million above the level required to preserve purchasing power for 2001.

Republicans Do Not Keep Pace — The Republican plan does not provide enough funding to maintain constant purchasing power for Function 250 after 2001; by 2005, the funding level represents a \$1.6 billion cut in purchasing power for science programs. Funding at these levels will restrict basic science discoveries at NSF, research and development at NASA, and nuclear and fusion science within DOE.

Democrats Increase Funding for NSF — During Committee consideration of the Republican plan, Democrats succeeded in increasing total funding for Function 250 to boost NSF's budget. Congressman Rush Holt (D-NJ) offered an amendment to increase funding for NSF by \$675 million (17 percent) for 2001. Republicans accepted the amendment but reduced the increase to only \$100 million.

Function 270: Energy

Function 270 comprises energy-related programs including research and development (R&D), energy conservation, environmental clean-up, and rural utility loans. Most of the programs are within the Department of Energy (DOE), although the rural utility program is part of the Department of Agriculture.

The House Republican plan provides \$2.8 billion in discretionary funding for Function 270. This level of funding is a \$271 million (8.8 percent) cut in purchasing power for 2001. At a time when the nation is facing a crisis over rising gasoline prices and our dependence on imported oil, the Republican plan actually provides **less** funding for energy research and conservation programs each subsequent year until it freezes funding at \$2.2 billion for 2004. By 2005, the level in the Republican plan represents an astounding 29.8 percent cut in purchasing power, a loss of almost one-third of the total value. The Republican plan is silent about how much it cuts specific programs, but the programs subject to these cuts include the following:

Energy Supply R&D — An across-the-board cut would decrease purchasing power for applied energy R&D by \$58 million for 2001. By 2005, the level in the Republican plan would cut purchasing power by \$209 million.

Fossil Energy R&D — Assuming an across-the-board cut, the Republican plan decreases purchasing power for 2001 by \$37 million for programs to help industry develop ways to produce and use coal, oil, and gas resources more efficiently. By 2005, the level in the Republican plan represents a \$137 million cut in purchasing power for these programs.

Nuclear Waste Disposal — The Department of Energy uses nuclear waste disposal funding to help find a permanent method to dispose of its high-level radioactive waste and spent nuclear fuel. Under an across-the-board cut, the Republican plan cuts purchasing power for these programs by \$21 million for 2001. By 2005, the level of funding is a \$77 million cut in purchasing power.

Function 300: Natural Resources and Environment

Function 300 includes programs in a variety of federal agencies concerned with: the development and management of the nation's land, water, and mineral resources; recreation and wildlife areas; and environmental protection and enhancement. Agencies with major program activities within this function include: the Environmental Protection Agency (EPA); the Army Corps of Engineers; the National Oceanic and Atmospheric Administration; the US Forest Service; and the Department of the Interior. This function does not include the large-scale environmental clean-up programs at the Departments of Energy and Defense (see *Function 050: National Defense* and *Function 270: Energy*).

For 2001, the House Republican budget plan provides \$24.3 billion for natural resources and environmental appropriations. This level of funding represents a \$460 million (1.9 percent) cut in purchasing power. The Republican plan continues to cut the purchasing power of these programs in the following four years. By 2005, the level in the Republican plan represents a \$2.6 billion (9.6 percent) cut in purchasing power.

No Room for the Lands Legacy Initiative — The Republican plan does not specify any assumptions regarding the President's Lands Legacy Initiative, but the funding levels leave little room for the President's proposal. For 2001, the President proposed to double the funding for certain land and water conservation programs to \$1.4 billion. The lack of available funding means that the federal government passes up the opportunity to acquire critical lands surrounding America's natural treasures. It also means no new funding to help states and localities adopt "smart growth" strategies, preserve open space, and restore urban parks.

Continued State and Local Assistance Placed in Jeopardy — The Republican plan could translate into a reduction in the assistance provided to states and localities for environmental infrastructure. In 2000, EPA provided \$2.6 billion in grants to finance wastewater and drinking water treatment plants, but even this amount did not fully address the needs of many communities.

No Help for Ailing National Parks — The Republican plan likely entails a cut in purchasing power for the National Park Service, which means longer waits for much-needed upgrades to the facilities that serve millions of park visitors each year.

Potential Delays in Water Resources Projects — The Army Corps of Engineers designs, builds, and often operates and maintains projects that provide river and harbor navigation, flood control, water supply, wildlife protection, and recreation. The Republican plan's cuts in purchasing power could mean delays in harbor-deepening projects or in the construction of flood protection projects.

Scale-back of Interior Operations Likely— Cuts in the purchasing power of the Department of Interior would likely translate into employee reductions or furloughs, since most of the agency's expenses are for salaries and related costs. Personnel reductions in turn could lead to longer delays in approvals for grazing permits and other land use permits (e.g., coal, timber, oil, and gas).

Function 350: Agriculture

Farm income stabilization, agricultural research, and other services administered by the U.S. Department of Agriculture (USDA) are funded within Function 350. The discretionary programs include: research, education, and rural development programs; economics and statistics services; meat and poultry inspection; a portion of the Public Law (P.L.) 480 international food aid program; and administrative costs. The mandatory programs include commodity programs, crop insurance, and certain farm loans.

The House Republican budget plan increases mandatory spending to help farmers by \$6.0 billion in 2000 and by \$7.2 billion for the period 2001-2005. However, the Republican plan partially negates this increase by freezing appropriated funding to administer the farm programs, culminating in an 11 percent cut in purchasing power by 2005.

Help for Farmers — The Republican budget plan increases mandatory spending for agriculture programs by \$6.0 billion in 2000 for additional income support payments and by a total of \$7.2 billion for the period 2001 through 2005. Although the Republican plan allows the Committee on Agriculture to use the \$7.2 billion for crop insurance or income assistance, the amounts within the resolution match the most recent cost estimate for H.R. 2559, the crop insurance reform bill passed by the House last September.

A Genuine Reserve Fund — Unlike the phantom reserve funds for tax cuts and Medicare reform, a true reserve fund for agriculture is provided in the Republican plan. Function 350 reflects increases of \$6.0 billion in 2000 and \$7.2 billion in 2001 through 2005. Unfortunately though, the Republicans showed they would not give agriculture spending the same priority as tax cuts because they include reconciliation directives for their tax cuts but not for agriculture. When Democrats offered an amendment during mark-up to establish reconciliation directives to the Agriculture Committee, Republicans rejected the amendment.

More Money, but the Right Solution? — The additional 2000 spending provided in the Republican plan is expected to double the statutory Agricultural Market Transition Act (AMTA) payment farmers received in October under the 1996 Farm Bill. This will assist certain farmers in need, but the AMTA payments are no longer well-targeted. Originally designed to compensate landowners whose land values decrease because of declining federal farm programs, AMTA has become a poor substitute for income support. Money meant to aid farmers is often delivered instead to absentee landowners. In addition, the payments are not directed to commodities that have experienced significant price declines. Therefore, farmers who grow commodities that continue to deliver reasonable market return are eligible for the payments along with farmers who are struggling to keep their farms because of low prices. Several income support proposals, for example those put forth by Agriculture Committee Ranking Member Charlie Stenholm and President Clinton, improve upon the fixed

payment structure under the current farm bill. These plans are more counter-cyclical in nature, providing more help when times are bad and less assistance when conditions improve. Such renovations of federal farm programs are not likely to occur under current Congressional Leadership until reauthorization of the Farm Bill in 2002.

The Big Tease — While the Republican budget plan makes more money available through farm programs, it also makes it harder for the money to reach farmers. The Republican plan includes \$4.5 billion for appropriated programs for 2001, a cut of \$130 million in purchasing power. The Republican plan reduces the value of discretionary agriculture programs \$1.6 billion over five years.

Farmers gain access to federal farm programs through USDA field offices. These field offices have faced staffing shortages and funding squeezes for the past several years, forcing long lines at the counter and delays in processing checks. Funding reductions have led to hiring freezes: currently two field office employees must leave (taking their training with them) before a single new employee can be hired. In other words, field offices have fewer personnel who are burdened with ever-increasing amounts of work that much larger staff struggled to finish. The Republican plan only compounds this problem.

The Republican plan provides room for larger farm payments while making the programs themselves impossible to administer. If the field office staff cannot do their jobs, farmers do not get their money. The Republican plan, if adopted, could mean that fewer and fewer farmers will actually get the help they need — and that Congress has approved — in a timely fashion.

Function 370: Commerce and Housing Credit

Function 370 includes the following: deposit insurance and financial regulatory agencies; the mortgage credit programs of the Department of Housing and Urban Development (HUD); the Department of Commerce's Census Bureau, business promotion programs, and technology development programs; rural housing loans; Small Business Administration business loans; the Postal Service; and other regulatory agencies such as the Federal Communications Commission.

Under the House Republican budget plan, appropriated funding for Function 370 drops to \$2.7 billion for 2001, a decrease of \$4.2 billion from the 2000 level. Although the Republican plan does not explain this sharp decrease, it most likely reflects the culmination of the 2000 census. After backing out the cost of the census, however, the 2001 funding level is still \$1.2 billion (30 percent) below the level required to maintain current purchasing power. For years 2002 to 2005, the appropriated funding levels for this function represent cuts in purchasing power of at least 20 percent. The Republican plan makes no net changes to mandatory spending for this function.

Small Business Programs at Risk — The cuts in discretionary funding for this function could translate into a massive scale-back of the loan programs of the Small Business Administration (SBA). For example, a 30 percent cut in SBA's business loan programs would mean a decrease of \$5.4 billion in the value of business loans guaranteed by the agency. A similar cut in SBA's disaster loan program would mean that \$260 million less would be available for direct loans to individuals and businesses in areas struck by natural disasters.

Rural Housing Loans — A 30 percent cut to the Department of Agriculture's program for rural housing loans would mean \$450 million less in direct loans and \$1.2 billion less in guaranteed loans. This would decrease the availability of affordable housing for low-income families in rural areas.

Function 400: Transportation

Function 400 is comprised mostly of the programs administered by the Department of Transportation, including programs for highways, mass transit, aviation, and maritime activities. The function also includes several small transportation-related agencies and the civilian aviation research program of the National Aeronautics and Space Administration (NASA).

For Function 400, the House Republican budget plan provides \$59.2 billion in budgetary resources (appropriated budget authority plus mandatory contract authority) for 2001, \$7.4 billion more than the 2000 level of \$51.8 billion. However, the Republican plan also assumes an increase in mandatory contract authority of \$2.5 billion for 2000, reflecting the recent reauthorization of the Federal Aviation Administration's (FAA's) Airport Improvement Program. When this amount is added to the 2000 funding level, the increase for 2001 is \$4.9 billion over the 2000 level. Of that increase, \$1.3 billion is appropriations for transportation programs, a 9 percent increase over the 2000 level.

Highways and Transit — The Transportation Equity Act for the 21st Century (TEA-21) constrains the role of the annual budget and appropriations process with respect to transportation funding. For example, TEA-21 ties obligation limitations for federal-aid highways for each year to the excise tax revenues that accrue to the Highway Trust Fund during the prior year and adjusts the guaranteed minimum level of highway resources annually. Following the rules in TEA-21, the Administration adjusted the 2001 funding level upward by \$3.1 billion. The minimum levels are guaranteed by a point of order against appropriations bills that do not provide sufficient funding. One can reasonably assume, therefore, that most of the increase in mandatory contract authority for 2001 is for highways and mass transit.

All Other Transportation Programs Squeezed — While most highway and transit programs (and some aviation programs) are funded with mandatory contract authority, appropriated budget authority funds the other transportation programs. The Republican plan provides \$15.7 billion in appropriations for 2001, \$1.3 billion (9 percent) more than the 2000 level. However, because Congress recently passed the conference agreement on H.R. 1000, which reauthorizes the FAA, almost all of this increase will go for aviation programs. H.R. 1000 constrains the appropriations process so that it will be very difficult for appropriators to provide anything less than the funding levels authorized in the Act. The authorization levels in H.R. 1000 for the appropriated portions of FAA's budget are almost \$1.4 billion (17.2 percent) higher than the 2000 appropriations. As a result, the funding for other transportation programs such as the Coast Guard, rail programs, and the Department of Transportation's administration will be frozen at or slightly below the 2000 level.

The Republican plan continues to squeeze these other transportation programs in the following years. The modest increases in appropriated funding provided in 2002 and 2003 accommodate only the increased spending that H.R. 1000 all but guarantees for the FAA. By 2003 (the last year covered by H.R. 1000), programs like Coast Guard and Amtrak face a cut in purchasing power of 8.9 percent. For 2004 and 2005, the Republican plan freezes all appropriated funding for transportation programs at \$16.8 billion. For 2005, that freeze translates to a 13 percent cut in purchasing power for the Coast Guard and the other appropriated transportation programs.

Function 450: Community and Regional Development

Federal support for community and regional development helps economically distressed urban and rural communities. Major agencies and programs included in this function are the Empowerment Zones, the Community Development Block Grant, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, the Federal Emergency Management Agency, and the Small Business Administration's disaster loan program.

The House Republican budget plan is able to provide modest increases in some budget areas in part by gutting community and regional development programs. For 2001, the Republican plan provides only \$9.1 billion for community and regional development appropriations. This level of funding is a \$2.6 billion (21.9 percent) cut in purchasing power and is \$2.3 billion (20.5 percent) below the 2000 freeze level. The Republican plan continues to cut these programs in years 2002 through 2005, providing \$8.5 billion in each of these years. By 2005, the level in the Republican plan represents an unrealistic \$4 billion (32.3 percent) cut in purchasing power and is \$2.9 billion (25.7 percent) below the 2000 freeze level.

The Republican plan does not outline specific cuts for community and regional development programs. However, the cuts in the Republican plan are deep enough to eliminate all discretionary appropriations for the Federal Emergency Management Agency (FEMA) and its disaster relief programs. This would mean that the Republican plan implausibly assumes that over the next five years the nation will not experience a single national disaster that requires federal assistance. Alternatively, the Republican plan could assume across-the-board cuts for all programs in this function in years 2001 through 2005. Following is an outline of the impact of across-the-board cuts on several programs in this function under the Republican plan:

Community Development Block Grants (CDBGs) — CDBGs provide funds to help communities improve housing and public works. Assuming across-the-board reductions, the Republican plan represents a \$1.1 billion cut in purchasing power for CDBGs for 2001 and a \$1.0 billion cut below the 2000 freeze level. By 2005, the across-the-board reduction for CDBGs represents a \$1.7 billion cut in purchasing power and a \$1.3 billion cut below the 2000 freeze level.

Federal Emergency Management Agency (FEMA)/ Disaster Relief Programs — FEMA aids communities devastated by severe weather and other natural disasters. Assuming across-the-board reductions, the Republican plan represents a \$600 million cut in purchasing power for 2001 and a \$560 million cut below the 2000 freeze level. By 2005, the across-the-board reduction for FEMA represents a \$1.0 billion cut in purchasing power and a \$800 million cut below the 2000 freeze level.

Bureau of Indian Affairs (BIA) — BIA provides services and assistance for Native American communities. Assuming across-the-board reductions, the Republican plan represents a \$200 million cut in purchasing power for BIA for 2001 and a \$180 million cut below the 2000 freeze level. By 2005, the across-the-board reduction represents a \$330 million cut in purchasing power and a \$260 million cut below the 2000 freeze level.

Rural Community Advancement Program — The Rural Community Advancement Program provides grants and loans to assist development in rural communities. Assuming across-the-board reductions, the Republican plan represents a \$154 million cut in purchasing power for the Rural Community Advancement Program for 2001 and a \$140 million cut below the 2000 freeze level. By 2005, the across-the-board reduction represents a \$240 million cut in purchasing power and a \$175 million cut below the 2000 freeze level.

Empowerment Zones — The Empowerment Zone program provides grants for economically distressed urban and rural communities that demonstrate innovative plans for revitalization. Assuming across-the-board reductions, the Republican plan represents a \$16 million cut in purchasing power for Empowerment Zones for 2001 and a \$14 million cut below the 2000 freeze level. By 2005, the across-the-board reduction for Empowerment Zones represents a \$24 million cut in purchasing power and a \$16 million cut below the 2000 freeze level.

Economic Development Administration (EDA) Assistance Programs — EDA programs provide assistance to alleviate unemployment and underemployment in economically distressed communities. Assuming across-the-board reductions, the Republican plan represents an \$81 million cut in purchasing power for 2001 and a \$72 million cut below the 2000 freeze level. By 2005, the across-the-board reduction represents a \$126 million cut in purchasing power and a \$91 million cut below the 2000 freeze level.

Function 500: Education, Training, Employment, and Social Services

Function 500 includes funding for the entire Department of Education, social services programs within the Department of Health and Human Services, and employment and training programs within the Department of Labor.

The House Republican budget plan provides \$56.8 billion for discretionary funding for Function 500 for 2001. This represents an increase of \$1.4 billion above the level necessary to maintain purchasing power, and \$2.2 billion above a freeze at the 2000 level. However, the Republicans have stated that their entire increase is for elementary and secondary education programs, and virtually all of it is for special education. This means that the Republican plan unrealistically freezes funding for all other education programs and all social services, employment, and training programs for five years. Overall, the Republican plan provides \$4.7 billion less for 2001, and \$19.8 billion less over five years (2001-2005) than President Clinton's budget.

Republicans Freeze Higher Education and Social Services — The Republicans assert that their entire increase for Function 500 is for elementary and secondary education programs, meaning that they freeze all other programs at last year's funding levels. That freeze means a \$1.1 billion cut in purchasing power for higher education programs, social services programs, and training and employment programs. By 2005, the level in the Republican plan represents an 8.5 percent cut in purchasing power for these important programs. This loss of purchasing power translates into real cuts in the numbers of people who can benefit from these programs each year. For instance, by 2005:

Pell Grants — About 316,000 fewer low-income students would receive Pell Grants to help attend college than in 2000; and

Head Start — Head Start would have to cut services to more than 40,000 children and their families.

Minimal Increase for Most Elementary and Secondary Education Programs — The Republican plan includes a Sense of Congress statement assigning almost all of their funding increase (at least \$2.0 billion) to special education programs. That would leave \$200 million at most for all other elementary and secondary education programs, which is not enough to preserve their current level of services. This would mean that Title I would provide educational services to a smaller percentage of low-income students, school districts could hire and train fewer new teachers, and after-school and summer school programs could not expand significantly.

Republicans Do Not Let Education Spending Equal the Funding Levels — Much of the increase for special education in the Republican plan is a mirage. Although it adds \$2.2

billion for 2001 compared with the 2000 freeze level, the Republican plan only lets the Department of Education spend \$200 million of that increase. Over the years, the disparity grows between the amount of budget authority the Republican plan provides and the amount of actual spending (outlays) it allows.² Over five years, despite adding \$20.3 billion in budget authority, the Republican plan provides only \$9.3 billion in additional outlays. Simply put, the Republicans do not provide the cash (outlays) to match their rhetoric (measured in budget authority).

Democrats Try to Increase Funding for High Priority Education Programs — During Committee consideration of the Republican plan, the Democrats offered an amendment to provide \$2.5 billion more for 2001 (\$15.2 billion over the period 2001-2005) for the following three programs: (1) the third installment of the President’s initiative to improve student achievement and teaching by hiring 100,000 teachers over seven years to reduce the average size of classes in the early grades; (2) assistance for school renovation and construction through loans, grants, and tax credits; and (3) increasing the maximum Pell Grant award to \$3,500. Every Republican voted against the amendment.

Democrats Offer “Full Funding” for Special Education — During the Committee’s mark-up of the Republican plan, the Democrats offered an amendment to provide “full funding” of the federal government’s maximum authorized contribution for special education. This amendment would have provided \$9.2 billion more for 2001 than the Republican total for special education simply by decreasing the size of their tax cut. Unfortunately, when faced with the opportunity to provide this funding, the Republicans refused to do so. Instead of *actually providing* this federal funding for special education, they diluted the amendment to merely repeat their Sense of Congress statement that Congress *should provide* this funding.

²Budget authority refers to the amount of funding an agency may commit or obligate. Outlays refer to actual cash disbursements. For example, if Congress provides \$2.0 billion in budget authority for special education, local educational agencies (LEAs) can begin making plans to sign contracts with new teachers for special education classes. The LEAs do not pay the teachers their annual salary immediately, but over the course of the academic year. These payments are recorded as outlays. In addition, because most education programs need time to plan for the coming academic year, the funding provided for one fiscal year primarily pays for costs in the following academic year. For these “forward funded” programs, the government releases budget authority on July 1 for the academic year beginning that fall. Most of the associated outlays, therefore, occur in the following fiscal year that begins on October 1.

Function 550: Health

In Function 550, discretionary programs (programs subject to annual appropriations) include most federal programs that provide direct health care services. Other health programs in the function fund national biomedical research, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. The major mandatory programs in this function are Medicaid and the State Children's Health Insurance Program (S-CHIP). For 2001, funding for the National Institutes of Health (NIH) represents over half (54.1 percent) of all discretionary funding and Medicaid accounts for 92.2 percent of the mandatory spending in Function 550.

Health Programs Subject to Annual Appropriations

Overall, the House Republican budget plan provides \$34.9 billion for discretionary health programs for 2001. This represents a modest increase in purchasing power of 1.2 percent for 2001 for these programs. Over five years (2001-2005), funding for discretionary health programs is \$179.9 billion. By 2005, purchasing power is cut slightly (-0.9 percent). The resolution does not contain explicit assumptions regarding the funding of discretionary health programs except for increases in NIH and Clinical Training and Research Awards for Alzheimer's Disease. Given the modest increase in overall funding for this function, the specified increases for NIH and Alzheimer's awards mean that the level provided in the Republican plan is insufficient to preserve all other health programs at their current level of services.

National Institutes of Health (NIH) — For 2001, the Republican plan increases NIH funding by \$1.0 billion (5.6 percent) over the 2000 level, and freezes it at that level thereafter. The 2001 level in the Republican plan is identical to the President's request. NIH accounts for 54.1 percent of all discretionary health funding in the Republican plan.

For 1999 and 2000, Congress on a bipartisan basis voted to increase NIH funding by 15 percent per year. Many in Congress are committed to doubling NIH funding by 2003 relative to the 1998 level. However, the increase for 2001 provided in the Republican budget is insufficient to continue the 15 percent annual increases required to double NIH funding by 2003.

Alzheimer's Disease Clinical Training and Research Awards — The amended Republican plan includes new funding proposed by Rep. Ed Markey (D-MA) for research and clinical training for Alzheimer's disease. The plan provides \$2.3 million for 2001, and \$11.3 million over five years (2001-2005).

Other Health Programs — The Republican plan provides a modest increase in overall funding for health programs for 2001. However, when the \$1.0 billion increase for NIH is excluded

from the increase, the resulting level is insufficient to preserve all other health programs at their current level of services.

Medicaid and the State Children's Health Insurance Program (S-CHIP)

The Republican plan increases spending slightly for Medicaid and S-CHIP by \$100.0 million for 2001, and by \$600.0 million over five years (2001-2005), relative to projections of current law.

The amended Republican plan includes the following program improvements proposed by Rep. Tammy Baldwin (D-WI) and Rep. Ken Bentsen (D-TX) to expand access to affordable health insurance for vulnerable people:

Accelerated Medicaid and S-CHIP Enrollment — The Republican plan: (1) allows additional sites to enroll children immediately (presumptive eligibility) in the programs; (2) allows sharing of school lunch eligibility information; and (3) requires states to simplify and align their Medicaid and S-CHIP enrollment processes.

Medicaid Only — The Republican budget includes a state option for Medicaid coverage and immediate eligibility for uninsured women who are diagnosed with breast or cervical cancer through the Centers for Disease Control's screening program.

Function 570: Medicare

Function 570 includes only the Medicare program. Discretionary funds (subject to annual appropriations) in Function 570 are used to monitor and administer the Medicare program. Medicare benefits comprise almost all of the mandatory spending in Function 570.

Administrative Funds Frozen

For 2001, the House Republican budget plan provides \$3.1 billion, the same as the 2000 level. Funds are frozen at this level for five years (2001-2005). For 2001, this represents a 2.4 percent cut in purchasing power; by 2005, a 14.9 percent cut.

- ***Effect of Cutting Funds to Prevent Fraud, Waste, and Abuse*** — Medicare's administrative funds are part of a pool of funds used by the Health Care and Financing Administration (HCFA) to prevent and detect fraud, waste, and abuse in the Medicare program. Although significant improvements were made in reducing Medicare's improper payment rate between 1996 and 1998 (a 45 percent reduction), the amount of errors is still too high (about \$13 billion annually). In fact, the level of improper payment rates rose slightly in 1999 over the 1998 rate. A cut in funds will not permit stepped up anti-fraud, waste, and abuse activities. It is ironic that Republicans have stepped up calls for elimination of waste, fraud, and abuse at the same time they reduce the pool of funds needed to do so.

A Reserve Fund for Medicare

The Republican plan increases Medicare spending by \$40.0 billion over five years (2001-2005) relative to projections of current law by creating a reserve fund for Medicare. For 2001, the Republican plan increases Medicare spending by \$2.0 billion relative to projections of current law. The reserve fund provides for an undefined Medicare reform plan, and an undefined prescription drug benefit.

- ***Undefined Prescription Drugs*** — The Republican plan does not require that the undefined prescription drug benefit be available to all Medicare beneficiaries. Over half of those without Medicare drug coverage have incomes *above* 150 percent of poverty. A prescription drug benefit that targets only low-income beneficiaries ignores the needs of a majority of Medicare beneficiaries.
- ***Undefined Medicare Reform*** — The undefined Medicare reform package envisioned by the Republican plan may consist of increased provider payments or a major overhaul of the Medicare program. In the past, a key feature of Republican proposals to restructure Medicare has been replacing the current defined benefit with a defined contribution. This

means ending the universal entitlement to health care and replacing it with a voucher covering a portion of a person's costs for an insurance plan.

Spending the Social Security Surplus

When the Medicare reserve is combined with the other reserves included in the House Republican budget plan, the plan spends the Social Security surplus. See *Overview* for further discussion.

Function 600: Income Security

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Major federal entitlement programs in this function include Supplemental Security Income (SSI), food stamps, Temporary Assistance to Needy Families (TANF), and child care. Section 8 housing and other housing assistance programs account for the largest share of discretionary spending in this function. Other key discretionary programs include the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the Low Income Home Energy Assistance Program (LIHEAP), and the Child Care and Development Block Grant.

For 2001, the House Republican budget plan provides \$35.2 billion for discretionary programs in Function 600, \$5.7 billion below the amount needed to maintain the current purchasing power of programs within this function. By 2005, discretionary funding falls \$9.1 billion in constant dollars under the Republican plan, a 19.1 percent loss in real purchasing power.

The Republican plan appears to be above a freeze in every year. This is misleading, however, because of the funding required to maintain Section 8 housing contracts. During the mark-up, Chairman Kasich stated that the Republican plan included sufficient funding to renew all expiring Section 8 contracts. In order to provide the funds that the Congressional Budget Office estimates are needed to cover Section 8 renewals, funding for other discretionary programs within this function would have to be cut *below* a freeze. Assuming full renewal of Section 8 contracts, the Republican plan falls below a freeze by \$1.5 billion in 2001. This translates into a 4.1 percent across-the-board cut in other discretionary programs within this function, which would have the following effects:

- ***Special Supplemental Nutrition Program for Women, Infants and Children (WIC)*** — For 2001, WIC funding would be \$165 million below last year's level. Nearly 310,000 low-income women, infants, and children would be cut from the program.
- ***Low Income Home Energy Assistance Program (LIHEAP)*** — For 2001, LIHEAP funding would be cut by \$45 million, eliminating winter and summer home energy assistance to 164,000 low-income families at a time of high energy prices.
- ***Child Care and Development Block Grant (CCDBG)*** — Over 12,000 low-income children of working parents would lose their child care subsidies under the CCDBG.

Funding for mandatory programs in Function 600 under the Republican plan is equal to the projected spending under current law.

Function 650: Social Security

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 45 million people and appropriated funding to administer these programs.

See *Ignoring Social Security and Medicare* for further discussion.

Function 700: Veterans

Function 700 includes funding for a wide range of veterans' benefits. Mandatory spending in this function pays for veterans' educational benefits and income security benefits such as compensation, pensions, and life insurance. The vast majority of appropriated funding in this function is for veterans' hospitals and medical care, but the function also includes funding for housing programs, veterans' cemeteries, and the general operating expenses of the Department of Veterans' Affairs (VA).

For 2001, the House Republican budget plan provides \$22.2 billion in appropriated funding for veterans' programs. This level of funding is a \$1.3 billion (6.4 percent) increase over the 2000 freeze level. A Republican press release indicates that most or all of this increase is intended for veterans' health care programs. For 2002 through 2005, the Republican plan increases appropriated funding for veterans by \$400 million annually, which does not keep pace with the amount necessary to preserve the current level of services. By 2005, the level in the Republican plan represents a cut of \$657 million (2.7 percent) in purchasing power.

The Republican plan makes no net changes to mandatory spending for veterans' benefits. For 2001, mandatory spending is \$25.6 billion, which is equal to the projected spending under current law.

Function 750: Administration of Justice

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the following: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the United States Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

For 2001, the House Republican budget plan provides \$26.9 billion for Administration of Justice appropriations. This level of funding represents a \$670 million cut in purchasing power. The Republican plan establishes increasingly larger cuts in purchasing power for years 2002 through 2005. It cuts purchasing power for the function by \$1.2 billion (4.3 percent) for 2002; \$1.8 billion (6.3 percent) for 2003; \$2.3 billion (7.8 percent) for 2004; and \$2.9 billion (9.3 percent) for 2005.

- ***Across the Board Reductions*** — The Republican plan is silent on specific program cuts in the Administration of Justice function. However, assuming across-the-board cuts, programs such as the FBI, INS, DEA, and the Customs Service will be forced to scale back operations by nearly 10 percent by 2005.
- ***21st Century Policing Initiative*** — President Clinton's 2001 budget increased funding for the 21st Century Policing Initiative by \$422 million over the 2000 level in order to place 50,000 new police officers on the street by 2005, provide up to 300 new community-based prosecutors, aid programs that focus on community crime prevention and youth violence, and help communities obtain advanced technologies to combat crime. The Republican plan does not assume increases for the 21st Century Policing Initiative and, therefore, does not ensure that the goals of the programs will be met.

Function 800: General Government

This function includes the activities of the White House and the Executive Office of the President, the legislative branch, Internal Revenue Service (IRS), and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, fiscal operations, and property control.

For 2001, the House Republican budget plan provides \$12.4 billion in discretionary funding for general government, \$652 million below the amount needed to maintain the current purchasing power of programs within this function. The Republican plan continues to cut these programs in 2002-2005 to accumulate a \$7.4 billion cut over the five period. By 2005, the level in the Republican plan represents a steep 15.9 percent cut in purchasing power.

Internal Revenue Service (IRS) — The IRS represents 63 percent of funding in this function. A cut of this magnitude would devastate the IRS, when funding for processing, assistance, and management needs to be maintained at current levels. Congress needs to provide the IRS certainty in its operational budget for the near future in order for IRS to set and maintain consistent long-term strategies and priorities and to develop and execute focused plans for improvement to meet the expectations of American taxpayers.

Other Programs — If Congress chooses to fully fund IRS, it will need to cut other programs in this function by over 13 percent for 2001 and 43 percent for 2005. These other agencies include the legislative branch, the Government Accounting Office, the General Services Administration, the Executive Office of the President, and the Library of Congress.

Function 920: Allowances

Function 920 displays the budgetary effects of proposals that cannot be easily distributed across other budget functions. In the past, this function has included funding for emergencies or proposals contingent on certain events. For 2001, the House Republican budget plan cuts non-defense appropriations by \$3.8 billion by including unspecified cuts within function 920. As is explained in greater detail in *Appropriated Programs*, this is part of an effort to mask how large the cuts to non-defense appropriations are in the Republican plan. Over the five-year period, 2001-2005, the Republican plan contains \$11.8 billion of unspecified cuts in function 920.

The Republican plan also includes the 2000 Supplemental Appropriations bill approved by the the Appropriations Committee on March 9, 2000. The Republican plan includes \$8.5 billion in 2000 for this supplemental.

Repeal of Delay in Military and Civilian Pay Day — The Republican plan includes a provision included in the 2000 Supplemental Appropriation that repeals a delay in pay dates for federal civilian employees and military personnel who are scheduled to be paid on September 29 or September 30, 2000; under the delay, they would have been paid on October 1, 2000, the first day in fiscal year 2001. The plan restores the pay date to the original schedule, shifting approximately \$4.1 billion in spending back to 2000.

Function 950: Undistributed Offsetting Receipts

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if they were distributed to them. This function currently includes three major items: rents and royalties from the Outer Continental Shelf (OCS); the receipt of agency payments for the employer share of federal employee retirement benefits; and other offsetting receipts, such as those from broadcast spectrum auctions by the Federal Communications Commission (FCC).

Offsetting receipts are recorded as “negative outlays” because they represent voluntary payments to the government in return for goods or services (e.g., OCS royalties and spectrum receipts) or because they represent the receipt by one agency of a payment made by another.

For 2001, the House Republican budget plan assumes offsetting receipts of \$46.7 billion. Over the five-year period 2001-2005, the resolution assumes offsetting receipts of \$245.4 billion, the same as projected under current law.

Federal Employee Retirement System — In 2001, federal agencies will pay \$38.2 billion to the federal employee retirement funds (Civil Service Retirement System, Military Retirement System, and the Federal Employees Retirement System). Federal agencies also make payments to the Medicare health insurance trust fund and the Social Security trust funds on behalf of their employees. As employees’ pay increases, agencies are required to increase their payments to these funds.

Federal Employees Pay Raise — The Republican plan increases federal civilian pay rates by 3.7 percent in January 2001, the same as the raise for military personnel.